



Governance Reform Gathers More Momentum

As we all know, Congress has been debating a series of possible reforms covering the accounting profession and financial reporting. If Congress doesn't act, the SEC is laying the groundwork for a Public Accounting Board that would oversee the auditing profession. Of course, this wouldn't be any panacea for accounting and reporting problems, but if the board is made up of business experts outside the Final Four firms, it might help restore some credibility to the reporting process.

In the meantime, though, we can applaud the actions of some bodies outside government — the stock exchanges and The Business Roundtable, the organization representing top CEOs from around the country. Both the New York Stock Exchange and Nasdaq have issued a package of proposed rules for their listed companies that would bring substantive change and create a kind of best-practices standard for much of corporate America.

The NYSE's recommendations from its Corporate Accountability and Listing Standards Committee were announced in early June, and FEI has listed them — and a comparison to existing standards — on our Web site: www.nyse.com/press/press.html. The committee report also makes recommendations to Congress and the Securities and Exchange Commission on various policy and regulatory matters.

These recommendations are really quite significant. They include:

- Increasing the role and authority of independent directors.
- Tightening the definition of "independent" director and adding new audit committee qualifications.
- Requiring that the audit committee chairman have financial experience.
- Encouraging a focus on good corporate governance.
- Giving shareholders more opportunity to monitor and participate in the governance of their companies.
- Establishing new control and enforcement mechanisms.
- Improving the education and training of directors.

According to the NYSE, the committee will be seeking public comments on its recommendations, then seeking final approval of the report at the NYSE Board of Directors' Aug. 1 meeting. I encourage members to offer their com-

ments on these far-reaching governance proposals.

Meanwhile, Nasdaq has filed a number of major rule changes with the SEC and will be taking comments on them as well. These changes, which could be implemented for Nasdaq companies later this summer, are similar in concept to those from the NYSE, but in some cases are even more specific. For instance, Nasdaq calls for a "cooling-off period" during which former auditors would be precluded from serving on corporate audit committees, and mandate non-U.S. companies to disclose if they have received waivers of corporate governance standards through a new SEC disclosure requirement.

The Business Roundtable, which represents the CEOs of the 150 largest companies in the U.S., is raising the bar for excellence in corporate govern-

ance as well. The BRT calls on companies to adopt a number of best practices in corporate governance, including:

- Requiring stockholder approval of stock options and restricted stock plans in which directors or executive officers participate.
- Creating and publishing corporate governance principles so that everyone understands the rules under which the company is operating.
- Providing employees with a way to alert management and the board to potential misconduct without fear of retribution.
- Requiring that only independent directors may sit on the board committees that oversee audit, corporate governance and compensation.
- Ensuring that a substantial majority of the board comprises independent directors, in fact and appearance.
- Requiring the audit committee to recommend the selection and tenure of the outside auditor and consider policies on changing the outside auditor or rotating audit team personnel.

All of these efforts signal just how seriously reform is being considered — and how critically the stock exchanges and top corporate officers view the issue of boosting public confidence in the capital markets. The stain of Enron and other bad actors is still a major factor in keeping the markets suppressed, so broad, very public moves toward reform are something finance officers everywhere can appreciate and rally behind.

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